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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

By DR. JACK CARLSON
Executive Vice President & Chief Economist
NATIONAL ASSOCIATION OF REALTORS®
777 14th Street, N.W.
Washington, D.C. 20005

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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Aggregate Economy

Despite the fact that the preliminary estimate of real or inflation-adjusted Gross National Product (GNP) growth for the first quarter is an annualized rate of 8.3 percent, the recovery has been slowing since the second quarter of 1983 and is expected to continue to slow during the remainder of 1984 and through 1985. Nearly 60 percent of the increase in GNP during the first quarter was due to an unexpectedly large increase in business inventory investment which is unlikely to be repeated in subsequent quarters. Final sales, which is defined as GNP less the change in business inventories, increased just 3.6 percent from January through March compared to 3.7 percent during October through December 1983 and 5.1 percent during July through September 1983. The rate of growth of nearly every major component of GNP was less than during the final quarter of 1983.

Real GNP growth during the second quarter of 1984 should be about 4-1/2 percent, then declining to 4 percent in the third quarter and 3 percent during the fourth quarter. The second quarter growth estimate of 4.5 percent is somewhat higher than many other private forecasters since we anticipate that automobile production and sales and overall business inventory investment will remain strong during the next few months. As interest rates rise through 1985 real GNP growth should continue to decline, possibly falling to just one percent during the fourth quarter. In fact there is some risk of a shallow recession during 1985. Modest improvement in overall economic activity in 1986 may follow.

The underlying factor behind the slowdown of the recovery is that, due to the enormous burden of financing the deficit, interest rates are simply too high to allow the level of business investment spending necessary to sustain strong growth rates. Consumers remain confident but have definitely begun to scale back their spending. Residential investment has been surprisingly strong, due in large measure to the widespread use of Adjustable Rate Mortgages, but should gradually taper off as the year proceeds. Moreover, increasing private credit demands in conjunction with a nearly $200 billion federal deficit and continued monetary restraint portend rising interest rates by the end of 1984 and through 1985.

Employment continues to grow but at a slower rate. In March and April civilian employment increased by 250,000 and 260,000, respectively, compared to 700,000 in February. The unemployment rate remained unchanged at 7.8 percent in February, March and April but should decline slowly during the remainder of the year before rising during 1985.

With manufacturing capacity utilization now at about 81 percent, inflation caused by shortages of capacity and skilled labor should continue to accelerate. During the first quarter of 1984 the Consumer Price Index (CPI) increased at an annual rate of 5 percent compared to 4.4 percent during the previous quarter. This modest acceleration should continue through 1984 with prices rising at an annual rate of about 6 percent or higher by the end of the year. However, slower growth of the economy should limit inflation to the 6 to 7 percent level from the summer of 1984 through 1985.

Fiscal Policy

The federal deficit is likely to be $184 billion for 1984 but increase above $200 billion in 1985 and subsequent years. The current federal deficit is providing a very strong 5-1/2 percent greater demand for goods and services than would exist without it and thus contributing to the currently high real growth rate and acceleration of inflation. Unfortunately, the deficit is taking 60 to 70 percent of net domestic savings that would otherwise be used for investment needed to increase the economy's productive capacity and using that savings for consumption. Instead of the economy moving toward greater growth through higher levels of savings and investment, it is moving in the opposite direction--less savings and investment and therefore slower growth of the American standard of living in the future. The high interest rates resulting from the deficit have also caused the U.S. dollar to be overvalued relative to other major currencies, thus hurting domestic export industries and industries which compete with foreign imports.

Table 1

Distribution of GNP by Component

(Percent)

	Personal Consumption	Fixed Investment			Government Purchases of Goods/ Services	Inventory Investment	Net Exports
		Total	Non Residential	Residential			
1976-80 average	62.8	15.8	4.6	11.2	20.3	0.7	0.4
1981-85 average	64.3	14.9	3.7	11.2	20.6	0.4	-0.3

The forecast assumes that a deficit reduction compromise package is enacted in 1984 with only modest impact during 1985 or is enacted in 1985 with significant impact in 1986 and beyond. In either case the deficit is reduced by only $40 billion by 1986, which results in a deficit of $220 billion rather than the $260 billion which is likely to occur if nothing is done. The expected deficit reduction package is too little and too late to avoid a serious run-up of interest rates by the end of 1984 and during 1985 and is far too modest to lower real interest rates by more than one percentage point. About all the deficit-reduction legislation currently under discussion will do is keep the deficit between $200 and $300 billion during the next five years.

These deficit reduction packages are also counter-productive to the extent that they involve tax increases which discourage investment, such as the extension of the cost recovery (depreciation) period for structures endorsed by Senator Dole and approved by the full Senate. The purpose of reducing the deficit is to reduce interest rates and thereby promote investment in housing, commercial and industrial structures, and equipment. However, the modest decline in interest rates that can be anticipated from the deficit-reduction

provided by these increases in tax revenue is not sufficient to offset the disincentive created by the tax increase. Analysis indicates that the net effect would be a lower level of investment in structures.

Monetary Policy and Interest Rates

Interest rates continued to edge up in April due to increasing credit demands in the private sector, a continued tight policy stance by the Federal Reserve Board (FED), and investor fears of an overheating economy and higher inflation in the future. Consumer installment debt continued to increase at a strong pace although below the peak increase of February. Large increases in outstanding business loans were reported as firms financed large increases in inventories and investments in new equipment.

Table 2

Yields on Selected Treasury Securities

		3-Month Bills	5-Year Notes	30-Year Bonds
1984:	JAN	8.90%	11.37%	11.75%
	FEB	9.09	11.54	11.95
	MAR	9.52	12.02	12.38
	APR	9.70	12.36	12.64

The FED tightened the growth of the money supply early in the first quarter in response to evidence that M1 was beyond the FED's upper target and that the rate of growth of the economy had become inflationary. This tightening has been successful in that the most recently available figures indicate that both M1 and M2 are now in about the mid-point of their respective target ranges.

Table 3

Compound Annual Growth Rates of Monetary Aggregates

		M1	M2	M3
1983:	NOV	3.3	8.6	15.4
	DEC	5.4	8.0	8.3
1984:	JAN	11.3	5.9	6.8
	FEB	6.8	8.7	10.9
	MAR	5.3	3.7	9.0
	APR	-1.7[E]	NA	NA
1984 Targets		4-8%	6-9%	6-9%

[E]Estimate.

It appears that the FED has a dual motive for this rather restrictive policy stance. Foremost is to cool the economy to prevent a major resurgence of inflation. This will also allay fears in credit markets and may result in lower interest rates this summer. However, at this time the FED posture is particularly restrictive. Current growth rates of M1 and M2 are consistent with just a 2.5 percent growth rate for real GNP. This leads to the suspicion that the FED also intends to keep upward pressure on interest rates to keep Congress' attention on the need for deficit reduction legislation.

Because of tight FED policies, the growing private credit needs associated with an expanding economy, and the continued enormous federal deficit, the trend for interest rates has been upward and will likely continue on that trend with perhaps a brief pause during the summer. By the first quarter of 1985 the 3-month T-bill rate should be up to about 10.5 percent while 30-year T-bonds should be up 30 to 40 basis points to about 13 percent. Rates are expected to continue rising during 1985, causing substantial reductions in activity in the interest-sensitive sectors of the economy and overall real GNP growth rates under 2 percent. In fact, there is a significant risk that the runup in rates in 1985 will be steep enough to cause a mild recession.

However, during the summer interest rates may temporarily decline as investors become more confident that the economy is indeed cooling off. Another significant factor in this short-term outlook is that the Treasury now has just over $20 billion of cash balances, much of it deposited at the FED rather than in commercial banks. These unusually large cash balances may be precautionary in anticipation of a delay in Congressional action on the federal debt ceiling which will need to be lifted later this spring. Nevertheless, as these balances are transferred from the FED to the commercial banking system there is likely to be some easing of interest rates, perhaps timed for the November election.

Housing

Single-family housing markets remained strong in March despite slight increases in mortgage rates. The seasonally-adjusted annual rate of existing single-family home sales rose to 3,030,000 units in March, up 4.1 percent over the February figure and the highest level in more than three years. In contrast, housing starts fell 26.6 percent in March over February to a seasonally adjusted annual rate of 1,638,000 units while building permits fell 12 percent to a seasonally adjusted annual rate of 1,714,000 units. Even with this decline, however, housing starts averaged 1,950,000 units during the first quarter of this year, up 14.8 percent over the fourth quarter of 1983.

The 0.04 percentage point rise in mortgage rates on loans closed during March, combined with increases in home prices, resulted in a 0.5 percentage point decline in the NATIONAL ASSOCIATION OF REALTORS®' Housing Affordability Index. The March figure of 86.4 means that a family earning the median income had 86.4 percent of the income needed to qualify for the purchase of a median-priced existing home.

Resales should remain around the 3 million unit level during the prime selling months of spring and early summer. However, rising interest rates later in the year should cause resales to fall off to a 2.7 million rate by

year end. As rates continue to rise through 1985 resales should fall off to about 2.5 million units but then rebound in 1986.

Housing starts should decline from the 1.95 million unit pace of the first quarter to 1.65 million units by the end of 1984. Rising interest rates, a slowing economy, and growing inventories of unsold homes should cause starts to fall to the 1.5 million unit level in 1985.

Prices of resale homes continue to rise at roughly the overall rate of increase of consumer prices. In March the median price of existing single-family homes sold stood at $72,400, 5.1 percent ahead of a year ago. By year end existing home prices should be rising about 5.5 percent. In 1985 the median price is likely to also rise about 5.5 percent, somewhat less than the rate of inflation due to a greater number of houses for sale relative to the number of buyers than in 1984.

The median price of new homes sold in March was $78,700--8.6 percent above a year ago. However, the rate of increase of new home prices should abate to about 6 percent by year end as builders' inventories of unsold units increase.

Multifamily construction has increased both in absolute level and relative to single-family construction thus far during the recovery. In 1983, 637,000 multifamily units were started (about 600 million square feet) representing 37.4 percent of total starts. Both the 1983 level and proportion of total starts were the highest since the HUD-subsidized era of the early 1970s. Two factors appear to be responsible for this development--stimulus provided by the Accelerated Cost Recovery System enacted into law in 1981 and strong demand for condominiums as a lower cost alternative to single-family homes. The level of multifamily starts should rise to 645,000 units in 1984, however, this level should represent a somewhat smaller proportion of total starts. In 1985 multifamily starts are expected to decline about 13 percent to 560,000 units.

Nonresidential Real Estate

The current recovery of nonresidential building is typical in that 1983 saw a strong recovery of retail (stores and warehouses) building construction which should continue through 1984 and 1985 but at a slower rate of increase. Retail building follows very closely the cycle of residential construction.

After a very steep drop during the past recession, construction of manufacturing or industrial buildings is making a fairly strong turnaround in 1984 that should continue through 1985 and 1986. A primary reason for this turnaround is that due to low levels of investment during the previous decade much of our existing manufacturing capacity is obsolete. However, this sector has a long way to go to fully recover. The 1984 forecast of 140 million square feet of space contracted is below the worst year of the mid-1970s recession.

However, office building is likely to decline in 1984 and continue to gradually decline for the next several years to correct for an oversupply of 200 to 250 million square feet (about one full years demand for additional space). Office building construction was on a boom of its own during the 1981 through 1983 period. In fact, construction increased in 1983 despite a sharply rising vacancy rate. Slowing growth of white collar employment expected through the

1980s puts demand growth at about 225 million square feet per year. The 1984 forecast of 236 million square feet is a decline over 1983 but is still above projected demand. An excess supply correction is expected for 1985 and 1986 with square footage falling to 100--150 million square feet range. The correction is expected to be gradual, however, since oversupply is concentrated geographically in the South and Southwest (Denver, Dallas, Houston, and San Diego in particular). Other large markets, such as New York and Chicago, are in relative balance at this time.

Table 4
Commercial and Industrial Building Contracts

	Retail Buildings		Office Buildings		Industrial Buildings	
Year	millions of sq ft	percent change	millions of sq ft	percent change	millions of sq ft	percent change
1981	337	-11%	325	+15%	187	-13%
1982	245	-27%	261	-20%	118	-37%
1983	362	+48%	281	+ 8%	107	- 9%
1984[F]	446	+23%	236	-16%	140	+31%
1985[F]	450	+ 1%	100	-58%	154	+10%

[F]Forecast.

Table 5

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,541	3,626	3,714	3,798	3,879	3,951	4,021	4,092	3,073	3,310	3,670	3,986	4,322
Percent Change	12.8	9.9	10.0	9.4	8.8	7.7	7.3	7.2	4.0	7.7	10.8	8.6	8.4
Percent Change (without inflation)	8.3	4.5	4.0	3.0	2.5	2.0	1.5	1.0	-1.9	3.4	6.1	2.6	2.1
Consumption	5.8	4.0	2.5	1.7	2.1	2.6	2.6	2.1	1.4	4.2	4.7	2.3	2.0
Durables	17.2	10.4	0.6	-1.2	0.9	2.8	3.3	2.3	-0.9	11.8	12.0	1.8	2.4
Nondurables	5.9	1.2	1.9	1.4	1.8	2.2	2.0	1.7	0.5	3.3	3.7	1.8	1.6
Services	2.0	4.1	3.5	3.0	2.7	2.9	2.7	2.4	2.9	2.7	3.1	2.9	2.2
Residential Investment	31.0	6.0	2.3	-8.0	-9.2	-8.1	-10.8	-3.7	-15.3	39.4	14.3	-6.4	2.8
Nonresidential Investment	12.0	7.8	7.6	6.6	6.0	5.7	5.4	4.9	-4.7	1.4	13.5	6.2	4.9
Structures	25.9	6.8	5.9	4.6	4.4	3.9	3.4	1.8	1.8	-6.9	10.0	4.4	2.5
Equipment	7.0	8.2	8.4	7.4	6.6	6.4	6.2	6.1	-7.5	5.3	14.9	6.9	5.8
Exports	9.7	5.4	5.3	6.0	6.6	7.1	6.1	5.5	-7.8	-5.8	5.9	6.2	4.9
Imports	41.9	9.0	9.8	7.0	6.8	5.6	4.2	3.2	1.4	7.2	22.4	6.5	3.3
Government Purchases	-0.8	17.7	3.8	3.2	0.9	3.2	2.6	2.2	1.8	0.5	3.3	3.4	3.0
Consumption (% of GNP)	65.3	65.2	64.9	64.7	64.6	64.7	64.9	65.1	65.3	65.9	65.0	64.8	64.7
Residential Investment (% of GNP)	3.7	3.7	3.7	3.6	3.5	3.4	3.3	3.3	2.5	3.4	3.7	3.4	3.4
Nonresidential Investment (% of GNP)	11.6	11.7	11.8	11.9	12.0	12.1	12.2	12.3	11.2	11.0	11.7	12.1	12.5
Inventory Change ($ billions)	62.2	45.4	57.6	68.5	76.8	70.4	60.6	45.8	-24.6	-6.5	58.4	63.4	43.6
Mfg. Capacity Utilization Rate (%)	81	82	82	82	82	82	82	82	71	75	82	82	82
Auto Sales (millions of units)	10.6	10.6	10.5	10.3	10.2	10.2	10.3	10.3	8.0	9.2	10.5	10.2	10.3
Domestic (% of total)	78.0	77.4	75.3	74.8	76.5	76.6	74.8	73.8	72.3	73.8	76.4	75.4	73.5
Imported (% of total)	22.0	22.6	24.7	25.2	23.5	23.4	25.2	26.2	27.9	26.1	23.6	24.6	26.5
Manufacturing Industrial Production (% change)	11.9	7.7	6.5	2.7	2.2	2.8	2.0	1.3	-8.5	7.8	11.2	3.2	2.2
Common Market	3.8	3.0	3.1	3.6	2.2	1.6	1.8	2.0	-1.4	0.6	3.3	2.4	1.6
Japan	12.0	4.4	2.1	2.4	6.0	2.9	2.4	1.0	0.4	3.4	8.1	3.4	2.9
Employment(millions)(civilian:household basis)	103.7	104.7	105.5	106.2	106.8	107.3	107.7	108.0	99.5	100.8	105.1	107.4	108.9
Unemployment Rate (%) (civilian)	7.9	7.6	7.4	7.2	7.2	7.3	7.4	7.5	9.7	9.6	7.5	7.3	7.8
Personal Income per Household (average)<1>	37,589	38,252	38,979	39,758	40,637	41,356	42,067	42,761	33,633	35,433	38,644	41,705	44,772
Percent Change -- Year Ago (w/o inflation)	5.2	4.8	4.6	3.2	1.7	1.7	1.8	1.6	-0.8	1.3	4.4	1.7	1.3
Personal Taxes per Household (average)	6,771	6,901	7,040	7,195	7,348	7,506	7,657	7,807	6,426	6,513	6,977	7,580	8,446
Percent Change -- Year Ago (w/o inflation)	1.4	0.6	4.4	3.7	2.6	2.7	2.7	2.5	-2.3	-2.7	2.5	2.6	5.0
Percent of Personal Income	18.8	18.8	18.9	18.9	18.9	19.0	19.0	19.1	19.9	19.2	18.8	19.0	19.7
Disposable Income per Household (average)	30,816	31,351	31,938	32,563	33,289	33,849	34,410	34,954	27,206	28,920	31,667	34,126	36,326
Percent Change--Year Ago (w/o inflation)	6.0	5.7	4.6	3.2	1.8	1.7	1.7	1.5	-0.4	2.3	4.9	1.6	0.5
Household Interest Payments (% of total)	10.3	10.6	10.1	10.1	10.0	10.2	10.5	10.5	9.6	9.8	10.3	10.3	10.1
Net Worth per Household (average)	75,588	77,110	78,630	80,087	81,435	82,761	84,060	85,588	66,453	74,134	77,854	83,461	90,547
Percent Change -- Year Ago (w/o inflation)	1.3	-0.5	0.0	1.2	1.8	1.3	1.0	1.0	-1.8	7.1	0.5	1.3	2.2
Consumer Price Inflation (CPI)	5.0	5.8	6.4	6.7	5.9	5.8	5.9	6.0	6.2	3.2	5.2	6.1	6.2
Gross National Product Inflation (GNP Deflator)	4.1	5.2	5.8	6.2	6.1	5.6	5.6	6.1	6.0	4.2	4.5	5.9	6.1
Personal Consumption Inflation	3.2	5.8	6.5	6.6	5.8	5.7	5.8	5.8	5.8	3.9	4.4	6.0	5.9
Residential Construction Inflation	0.9	5.1	7.2	8.2	7.4	7.3	7.1	7.1	2.8	2.3	3.4	7.3	7.6
Nonresidential Construction Inflation	-2.7	6.2	7.7	8.7	7.8	7.6	7.5	7.6	4.7	-0.7	2.1	7.8	7.8
Producers Price Inflation (WPI)	3.1	6.5	6.9	6.4	5.3	5.9	6.0	6.0	2.0	1.3	4.5	6.0	6.2
Compensation per Manhour (% change)	6.9	6.4	6.8	7.0	7.6	6.5	6.4	6.9	7.9	5.6	5.8	6.9	7.4
Productivity (% change)	1.5	2.2	2.0	1.3	1.1	1.2	1.7	1.6	0.0	3.1	2.0	1.4	1.8
Unit Labor Cost (% change)	5.1	4.2	4.8	5.7	6.5	5.2	4.7	5.2	7.9	2.4	3.7	5.4	5.6
Unit Capital Cost (% change)	5.1	4.8	4.6	4.5	4.5	4.6	4.7	4.8	9.5	6.9	4.7	4.7	5.0
Before Tax Corporate Profits ($ billions)<2>	246	254	262	268	271	270	266	263	190	217	257	267	278
Corporate Tax Liability	91	94	98	100	102	100	98	98	59	77	96	100	104
'Windfall Profits' Tax Receipts	8	9	9	9	9	9	9	9	16	10	8	9	9
After Tax Profits	146	151	156	159	161	161	160	156	115	131	153	159	166
Inventory Valuation Adjustment	-10	-22	-30	-30	-27	-29	-31	-32	-8	-9	-23	-30	-35
Capital Consumption Adjustment	50	56	61	65	71	73	76	79	-1	31	58	75	80
Profits from Current Production (with IVA, CCA)	187	185	187	194	204	205	205	203	106	152	188	204	211
Adjusted for Inflation (83:1 base)	180	176	175	179	186	184	182	177	109	150	178	182	177
Percent Change - Year Ago	49.5	25.0	9.2	0.7	3.4	4.6	3.6	-1.1	-8.9	38.0	18.5	2.6	-2.8
Per Unit of Output (% of GNP)	5.3	5.1	5.0	5.1	5.3	5.2	5.1	5.0	3.4	4.6	5.1	5.1	4.9
Effective Corporate Tax Rate (%)<2>	33	34	35	34	34	33	33	33	37	34	34	33	33
Federal Tax Receipts (Unified basis)	593	786	692	651	654	844	756	701	609	613	680	739	827
Percent of GNP	16.7	21.7	18.6	17.1	16.9	21.3	18.8	17.1	19.8	18.5	18.5	18.5	19.1
Federal Expenditures (Unified basis)	851	871	831	907	939	956	951	994	740	803	865	960	1,051
Percent of GNP	24.0	24.0	22.4	23.9	24.2	24.2	23.7	24.3	24.1	24.3	23.6	24.1	24.3
Surplus or Deficit (Unified basis)	-259	-85	-139	-256	-285	-113	-195	-293	-131	-190	-185	-221	-224
% of GNP	7.3	2.3	3.8	6.7	7.3	2.9	4.8	7.2	4.2	5.8	5.0	5.6	5.2
% of Personal Savings	168.7	57.9	94.6	165.6	165.7	65.3	112.5	169.0	106.1	164.3	121.7	128.1	129.8
% of Net Domestic Savings	80.8	27.1	44.4	79.0	81.5	32.4	56.2	85.7	68.0	78.5	57.8	63.9	65.1

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

Table 6

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:1	84:2	84:3	84:4	85:1	85:2	85:3	85:4	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,943	3,093	2,937	2,783	2,708	2,616	2,502	2,422	1,948	2,719	2,939	2,562	2,704
Percent Change - Year Ago	14.5	11.2	6.0	0.9	-8.0	-15.4	-14.8	-13.0	-17.2	39.6	8.1	-12.8	5.6
Dollar Volume (billions)	250.2	267.4	257.5	238.8	237.1	234.5	228.0	216.0	156.5	224.5	253.5	228.9	254.1
Existing Home Prices - Median ($1000's)	71.8	73.7	75.3	74.0	75.9	77.9	79.4	77.9	67.7	69.8	73.7	77.8	82.3
Percent Change - Year Ago	5.0	5.6	5.9	5.7	5.6	5.7	5.5	5.2	2.3	3.2	5.6	5.5	5.8
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	643	674	694	692	724	763	792	768	754	633	675	762	752
Percent of Household Income	21	22	22	22	22	23	24	23	28	22	22	23	21
NAR Affordability Index	86.8	86.1	83.7	86.1	85.1	83.5	82.3	85.3	68.3	82.3	85.7	84.1	86.8
New Single-Family Home Sales (thousands)	681	690	680	670	630	590	550	510	417	626	680	570	630
Percent Change - Year Ago	13.8	6.5	15.8	-0.3	-7.5	-14.5	-19.1	-23.9	-4.3	50.1	8.6	-16.2	10.5
New Home Prices - Median ($1000's)	78.3	79.6	81.2	83.0	84.7	86.4	88.1	89.8	69.3	75.5	80.5	87.2	94.7
Percent Change - Year Ago	6.9	6.1	4.5	9.4	8.1	8.6	8.5	8.2	0.7	8.9	6.7	8.3	8.6
New Home Prices--Mean ($1000's, Quality Adjusted)	90.7	91.8	93.6	95.0	97.0	98.7	100.6	101.8	87.8	89.7	92.8	99.5	107.1
Percent Change - Year Ago	1.9	3.5	3.2	5.3	6.9	7.5	7.5	7.2	2.8	2.1	3.5	7.3	7.6
New Mortgage Commitments ($ billions)	187.6	164.8	159.7	162.9	163.9	165.3	166.8	172.8	64.8	163.4	168.8	167.2	192.5
Percent Change - Year Ago	30.6	7.0	-16.8	-0.7	-12.6	0.3	4.4	6.1	8.1	152.1	3.3	-0.9	15.1
Mortgage Debt Outstanding ($ billions)	1,877	1,933	1,991	2,050	2,112	2,174	2,240	2,308	1,628	1,749	1,963	2,209	2,152
Homeowners' Equity ($ billions)	2,722	2,772	2,810	2,890	2,960	3,034	3,109	3,183	2,396	2,580	2,798	3,072	3,384
Housing Inventory (millions)	92.8	93.2	93.6	94.1	94.4	94.8	95.1	95.5	90.6	91.8	93.4	95.0	96.3
Private Housing Starts (thousands)	1,950	1,857	1,802	1,692	1,554	1,502	1,473	1,487	1,056	1,704	1,825	1,504	1,634
Single-Family	1,258	1,213	1,170	1,079	979	935	918	929	663	1,066	1,180	940	1,056
Percent of Total	64.5	65.3	64.9	63.8	63.0	62.2	62.3	62.5	62.8	62.6	64.6	62.5	64.6
Multi-Family	692	644	632	613	575	567	556	558	394	637	645	564	578
Percent of Total	35.5	34.7	35.1	36.2	37.0	37.8	37.7	37.5	37.2	37.4	35.4	37.5	35.4
Mobile Home Shipments (thousands)	307	312	303	307	305	309	305	304	240	296	307	306	314
Rental Vacancy Rate (%)	5.6	5.5	5.5	5.4	5.4	5.4	5.4	5.4	5.3	5.6	5.5	5.4	5.4
Unsold New Homes (% of sales)	44.4	44.0	44.5	45.9	47.5	49.3	51.2	52.1	65.2	43.1	44.7	50.0	51.4
Office Vacancy Rate (%)<1>	13.1	12.0	11.5	11.1	10.7	10.4	10.1	9.9	8.0	11.7	11.9	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.8	4.6	4.4	4.2	4.0	3.9	3.8	3.8	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	62.8	17.1	8.0	8.0	4.2	3.4	1.6	-0.5	9.0	-2.8	22.6	5.3	5.2
New Industrial Building Construction (% Ch Value)	98.2	19.4	26.6	38.7	30.2	20.4	9.6	13.2	2.5	-24.0	16.5	24.7	16.7
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	7.4	8.5	6.7	5.3	5.7	5.4	5.7	6.9	6.6	11.0	7.5	5.9	6.2
M1 Velocity (% change)	5.0	1.3	3.1	4.0	2.9	2.1	1.5	0.3	-2.4	-3.0	3.1	2.5	2.1
M2 (% change)(FED Target 6-9%)	7.0	9.4	9.1	8.1	6.8	6.4	8.1	8.7	9.5	12.6	8.4	7.7	8.1
M2 Velocity (% change)	5.5	0.4	0.9	1.2	1.9	1.2	-0.8	-1.4	-5.0	-4.4	2.3	0.9	0.3
Monetary Base (% change)	7.0	7.1	7.1	6.9	6.3	6.8	7.8	6.8	6.9	9.5	7.5	6.9	6.5
Flow of Funds													
Supply (total)	395	395	406	423	451	452	451	447	209	285	405	450	448
Personal Savings	153	146	147	154	172	173	173	173	125	114	150	173	173
Savings Rate	6.1	5.7	5.6	5.8	6.3	6.2	6.1	6.0	5.8	4.9	5.8	6.2	5.7
Net Business Savings	108	104	104	108	117	115	113	109	37	79	106	114	112
State + Local Govt. Savings	58	62	63	61	61	61	61	60	31	51	61	60	59
Foreign Funds(current account deficit)	75	83	92	99	101	103	104	106	15	41	87	104	104
Demand (total)	461	223	306	432	480	310	375	448	163	317	355	403	360
Consumer Installment Debt(net change)	59	49	40	36	35	36	37	38	13	42	46	37	42
Commercial+Industrial Loans(net change)	34	6	45	65	83	87	63	32	23	-2	38	66	3
Home Mortgage Debt(net change)	109	84	81	74	76	74	80	85	-4	86	87	79	91
Federal Deficit	259	85	139	256	285	113	195	293	131	190	185	221	224
Selected Interest Rates (Percent)													
Mortgage Commitment Rate (weighted average)	13.2	13.5	13.6	13.8	14.1	14.5	14.8	14.6	16.6	13.3	13.5	14.5	13.5
30 Year,Fixed-Rate	13.9	14.2	14.3	14.5	14.8	15.2	15.5	15.3	17.3	14.0	14.2	15.2	14.2
1 Year ARM (without buy-down)	12.2	12.9	12.8	13.1	13.4	13.8	14.0	13.7	14.3	11.6	12.8	13.7	12.6
Real Mortgage Rate (weighted average)	9.1	8.3	7.8	7.6	8.0	8.9	9.1	8.5	12.2	9.3	8.2	8.6	7.1
Corporate Bond Rate (AAA)	12.3	12.9	13.0	13.2	13.4	13.7	14.0	14.0	13.8	12.0	12.8	13.8	13.1
Government Bond Rate	12.1	12.4	12.5	12.6	12.8	13.2	13.4	13.3	12.9	11.3	12.4	13.2	12.1
Real Long-term Government Bond Rate	8.0	7.2	6.8	6.4	6.7	7.6	7.8	7.1	8.6	7.3	7.1	7.3	5.7
Federal Funds Rate	9.7	10.3	10.3	10.6	10.7	11.2	11.6	11.3	12.3	9.1	10.2	11.2	10.1
3 Month Treasury Bill Rate	9.2	9.9	9.8	10.0	10.4	10.8	11.1	10.8	10.6	8.6	9.7	10.8	9.8
Real 3 Month T-Bill Rate	5.1	4.7	4.1	3.9	4.3	5.3	5.4	4.7	6.2	4.5	4.4	4.9	3.4
1 Year Treasury Bill Rate	10.2	10.9	10.8	11.1	11.4	11.8	12.0	11.7	12.3	9.6	10.8	11.7	10.6
Commercial Paper Rate	9.4	10.2	10.1	10.4	10.5	11.0	11.4	11.1	11.9	8.9	10.0	11.0	9.8
Rate on Money Market Fund Shares	9.6	10.4	10.3	10.6	10.7	11.3	11.6	11.3	12.1	9.0	10.2	11.2	9.9
Prime Rate	11.1	12.0	12.2	12.4	12.7	13.0	13.3	13.0	14.9	10.8	11.9	13.0	11.6

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.